

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ID#5921

ENERGY DIVISION

RESOLUTION G-3389

10/5/06

R E S O L U T I O N

Resolution G-3389. Pacific Gas & Electric Co. (PG&E)

By Advice Letter PG&E 2721G/2812E, filed on April 10, 2006.

Proposal to allow Applicants for Line and/or Service Extension to opt out from receiving a bid from the utility to perform the design and/or construction of the refundable portion.

SUMMARY

This Resolution denies PG&E's proposal to change its Application for Line and/or Service Extension forms to allow Applicants to opt out of receiving a bid for the design and/or construction of the line and/or service extension. This resolution requires PG&E, SCE, SDG&E, SoCal Gas and Southwest Gas to revise their Statement of Applicant's Contractor's Anticipated Cost (SACAC) forms to require Applicants to show their contractor's bid amount. The SACAC form shall state that connection to the utility system is subject to showing the contractor's bid amount. The form shall also inform the Applicant that a lower bid amount results in lower costs for ratepayers.

BACKGROUND

Decision (D.) 99-06-079 in Rulemaking (R.) 92-03-050 ordered the utilities to provide an Applicant for line and/or service extension with a site-specific estimate which the Applicant can use to shop for a lower bid from an independent contractor. The Commission opened up the competitive bidding for this work in lieu of the utilities providing unit costs for line and service extensions. D.99-06-079 allowed the utilities to book their estimated costs of the extension to ratebase, even if an independent contractor built the extension for a lower cost.

D. 03-03-032 ordered the utilities to change their accounting, by requiring utilities to book to ratebase the lower of the utility's estimate (binding bid) or the Applicant's (independent contractor) cost (bid), whichever is lower. This was to benefit the ratepayers.

Before Resolution G-3364 went into effect, the utilities did not provide an estimate until the Applicant chose the utility for the refundable portion of the line and/or service extension work. This practice denied the Applicant the opportunity to shop bids and potentially kept the amount going into ratebase higher than the actual cost in cases where the extension was done for less by an independent contractor.

Resolution G-3364 ordered the utilities to file a form (PG&E's form 79-1003, "Statement of Applicant's Contractor's Anticipated Costs" (SACAC)), for the following purposes: (1) to provide the Applicant with a binding utility estimate of the refundable cost of the line and/or service extension before he chose the utility or a contractor, (2) to indicate the Applicant's choice of the utility or independent contractor, and (3) to report the amount of the independent contractor's bid for the refundable portion of the extension, per Rule 15, Section F, if chosen.

The third requirement is necessary to keep the ratebase as low as possible for ratepayers. Because of opposition from the independent contractors' representatives to disclose their bids, an option for the Applicant to decline disclosure of the independent contractor's bid is currently also included on the form. If the Applicant declines to disclose his contractor's bid, the utility is allowed to book its estimate (binding bid) to ratebase.

The SACAC form is sent to the Applicant for signed return under penalty of perjury before the utility proceeds with the design/construction.

This AL proposes to reverse portions of D. 03-03-032 and G-3364 by having the Applicant state whether he/she wants to receive a utility bid on the Application for Service form, in essence letting PG&E know that there will be no competition for the extension work prior to PG&E's bid.

PG&E states that a large majority of Applicants have already decided who will perform the extension work before they submit their applications. Smaller project customers do not have the resources to shop for bids and prefer to have the utility perform the extension. Since introduction of the SACAC form on July 1, 2004, only 27 out of 30,000 plus Applicants have returned it to PG&E with a contractor's bid indicated, of which 20 were lower than the utility bid.

This AL proposes to revise all Application for Gas and Electric Service forms (Residential Single Family Dwelling, Residential Subdivision /Development, Commercial/Industrial, Agricultural) to provide the Applicant with the option of declining a PG&E bid.

NOTICE

Notice of AL 2721-G/2812-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Advice Letter 2721-G/2812-E was not protested, however the Energy Division has concerns because this AL proposes to reverse a decision and resolution. An AL is not the proper

procedure to request such a reversal, and some of the goals of this AL can be accomplished consistent with current Commission requirements.

DISCUSSION

This AL is not the appropriate procedure to request a modification of a decision and resolution.

However, the Energy Division proposes an alternate to the AL to make the SACAC form more meaningful without modifying a prior decision and resolution.

The SACAC form is primarily for the benefit of the ratepayers to keep the line extension cost, and with it the ratebase, as low as possible by competitive bidding.

PG&E's rationale for giving the Applicant the choice of a utility bid is the complaint of small project Applicants about the paperwork involved with returning the completed SACAC form. Most of the experienced residential developers choose the Applicant design and construction.

We agree that small project Applicants do not normally have the resources to manage an independent contractor to perform the extension work. However PG&E not only proposes to change its "Application for Service – Residential Single Family Dwellings" form, but also the Application for Service forms for Developers (more than 4 residences), Commercial/Industrial, and Agricultural Applicants.

D.99-06-079 does not give the Applicant the option to decline a bid from PG&E for design and/or installation work. The utilities are required to develop their extension costs for the ratebase anyway and have ample experience to provide accurate and fast bids. The complaints by small project Applicants about the paperwork may stem from their ignorance of the impact on ratebase of non- competitive bidding. Developers are not normally the ratepayers of their projects. They usually decline providing their contractor's bid on the SACAC form.

Only 27 Applicants out of 30,000 showed a contractor bid amount since July 2004. Significantly, 20 of the contractors' 27 bids were lower than PG&E's bid. This indicates a large potential for lowering utility ratebase, if all Applicants are required to show the competitive bid.

PG&E's current practice of giving the Applicant the option of keeping the independent contractor's bid confidential for the refundable portion of line and/or service extensions is not authorized by any Commission decision or resolution. This confidentiality option should be deleted from the forms of all utilities. The form should state that disclosure of the independent contractor's bid is mandatory in order to get connected to the utility's system.

The Application for Service forms shall not include an election of receiving a bid from PG&E. The SACAC form shall keep the requirement for the utilities to provide a bid prior to the Applicant choosing the contractor.

Even a small project Applicant has a right to a written bid from the utility prior to stating his/her intent in writing whom he/she will award the design and/or construction work. The SACAC form is an appropriate vehicle for this. The Energy Division receives frequent calls from small project Applicants complaining about verbal utility quotes, which are later changed substantially in the final written bid. To mitigate some Applicant's annoyance of the paperwork involved in line extensions, an educational note should be added to the SACAC form to explain why the bid information is required. This note should inform the Applicant that the disclosure of competitive bids is necessary to keep ratebase as low as possible to minimize rates for all ratepayers.

COMMENTS

Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. An AL is not the proper procedure to change a Commission decision. A formal petition to modify, served on all parties in the affected docket, is the appropriate procedure.
2. The SACAC form is primarily for the benefit of the ratepayers to keep the ratebase as low as possible by creating a competitive situation for line and/or service extension design and/or construction work.
3. Many experienced developers choose independent contractors to design and construct line and/or service extensions. They decline to show their competitive bid on the SACAC form, since they are not required to do so and developers have no direct incentive to minimize overall costs for ratepayers.
4. Because the lower of the utility's bid or the independent contractor's bid is booked to ratebase, declining to show the contractor's bid may unnecessarily boost the ratebase. The utilities are allowed to book their bid amount into ratebase in case the Applicant declines to provide his contractor's bid amount.
5. Small project Applicants do not have the resources to manage independent contractors and usually have the utility provide the extension design and construction. These applicants may not fully understand the need for the SACAC form.

6. Requiring an Applicant to decide if he/she desires a bid from the utility, on the Application for Service form, is contrary to D. 99- 06-079. This decision requires the utility to always provide a bid, allowing the Applicant to shop for lower bids from independent contractors.
7. Resolution G-3364 affirmed D.99-06-079 requirement for the utility to provide a bid to allow for bid shopping by the Applicant prior to choosing the utility or independent contractor to perform the work.
8. PG&E states that only a very small number of Applicants reported the independent contractor's bid on the SACAC form, but of those, more than two thirds were lower than the utility's bid.
9. The potential for a lower ratebase is great with mandatory reporting of the contractor's bid, especially for projects sponsored by developers and commercial/industrial Applicants.

THEREFORE IT IS ORDERED THAT:

1. PG&E's proposal to revise its Application for Service forms to add the Applicant option to decline bids for the design and/or construction of refundable portions of the line and/or service extension work is denied.
2. PG&E, SCE, SDG&E, SoCalGas and Southwest Gas shall revised their SACAC forms to delete the Applicant opt out choice of disclosing the independent contractor's bid amount for the refundable portion of the line/service extension work.
3. The SACAC forms of the above named utilities shall include a statement that connection to the utility system is subject to disclosure of the independent contractor's bid.
4. The SACAC forms of the above named utilities shall inform Applicants that lower rates result from using the lowest bid amount to add to ratebase.
5. All of the above named utilities shall revise and submit their SACAC forms within 30 days according to Ordering Paragraphs 2 through 4 above and incorporate the orders in their procedures.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 5, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

August 16, 2006

G-3389

TO: PARTIES TO PG&E's ADVICE LETTER 2721-G/2812-E

Enclosed is draft Resolution G-3389 of the Energy Division. It will be on the agenda at the October 5, 2006 Commission meeting. The Commission may then vote on this Resolution or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

A copy of the comments should be submitted to:

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505 Van Ness Avenue
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Email: wmb@cpuc.ca.gov

Any comments on the draft Resolution must be received by the Energy Division by September 6, 2006. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft resolution may be filed (i.e., received by the Energy Division) on September 14, 2006, 7 days after comments are filed, and shall be limited to identifying

misrepresentations of law or fact in the comments of other parties. Replies shall not exceed five pages in length, and shall be filed and served as set forth above for comments.

Late submitted comments or replies will not be considered.

Natalie Walsh
Program Manager
Energy Division

Enclosure: Service List

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution G-3389 on all parties in these filings or their attorneys as shown on the attached list.

Dated August 16, 2006 at San Francisco, California.

Jerry Royer

NOTICE

Parties should notify the Energy Division, Public Utilities
Commission, 505 Van Ness Avenue, Room 4002
San Francisco, CA 94102, of any change of address to
ensure that they continue to receive documents. You
must indicate the Resolution number on the service list
on which your name appears.

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